

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

SUPPLEMENTAL TESTIMONY
OF
HALSTEIN STRALBERG
ON BEHALF OF
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & COMPANY, INC.
MAGAZINE PUBLISHERS OF AMERICA, INC.
THE MCGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
AND
TIME WARNER INC.

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August 14, 2000

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Halstein Stralberg. I am a consultant to Time Warner Inc. on issues related
3 to distribution of magazines through the postal system. For a detailed sketch of my
4 autobiography, please see my direct testimony in this docket (TW-T-1).

5 **I. PURPOSE OF TESTIMONY**

6 This testimony addresses the effect that Commission Order No. 1294 (May 26, 2000),
7 requiring incorporation of actual FY99 cost data into cost projections for the test year,
8 has on the recommendations made in my direct testimony (TW-T-1). That testimony
9 addressed two main issues: (1) mail processing cost distribution; and (2) worksharing
10 discounts for Periodicals mail.

11 **II. MAIL PROCESSING COST DISTRIBUTION**

12 My direct testimony proposed several changes in the Postal Service's methodology for
13 distributing mail processing costs among subclasses and special services. Those
14 changes were incorporated in the SAS program filed as MPA-LR-3, which also included
15 cost attribution changes that are proposed in the direct testimony of MPA witness
16 Cohen (MPA-T-1). A new version of the program, which updates the distribution of
17 mail processing costs proposed in TW-T-1 and MPA-T-1 by operating on the FY99
18 IOCS mail processing tallies, is being filed as MPA-LR-12.

19 **III. WORKSHARING DISCOUNTS FOR PERIODICALS MAIL**

20 TW-T-1 described several changes necessary to the flats mail flow model presented by
21 witness Yacobucci (USPS-T-25), focusing in particular on a more appropriate modeling
22 of bundle breakage, based on newer and more accurate breakage data. Witness Glick
23 (PostCom, et al.-T-1) introduced additional model changes. The resulting flats mail
24 flow model spreadsheet was filed as MPA-LR-2. The remainder of this supplemental
25 testimony describes changes to the MPA-LR-2 mail flow model that conform it, to the
26 extent possible, with Order No. 1294. The updated version of the model is being filed
27 as MPA-LR-14.

1 The MPA-LR-2 mail flow model was filed with the understanding that the worksharing
2 related cost differentials it produces could change, depending on how the Commission
3 decided some related issues. In particular, it was understood that changes in the
4 volume variability factors assumed by the Postal Service at mail processing cost pools
5 would cause the estimated worksharing cost differentials to expand or contract,
6 depending on whether the variability factors are increased or decreased. It was
7 likewise understood that changes in mail processing cost distribution, or in expected
8 Periodicals cost reductions in the test year, might narrow or enlarge the worksharing
9 cost differentials. Tr. 24/11444.

10 In the remainder of this testimony I describe changes in the flats mail flow model that I
11 believe are appropriate in light of the use of actual FY99 cost data and of the changes in
12 the Postal Service's test year inflation forecasts described by witness Patelunas (USPS-
13 ST-44). Exhibit 1 shows revised estimates of presort and automation related unit costs
14 and compares them with the corresponding costs presented in MPA-LR-2. The overall
15 impact on worksharing cost differentials is small for both regular rate and nonprofit
16 Periodicals. Note that many model elements were derived from special studies and
17 therefore cannot be updated.

18 1. The CRA Adjustment

19 The purpose of the CRA adjustment is to assure that the modeled processing costs for a
20 given subclass match the CRA processing costs attributed to the subclass at the
21 modeled cost pools. The CRA costs against which the modeled costs for each subclass
22 will be compared are computed on spreadsheet page "CRA Cost Pools" in the flats mail
23 flow model. In MPA-LR-2, the combined test year worksharing related unit cost, used
24 to normalize the modeled costs, was 7.65 cents per piece for regular rate and 3.768 cents
25 for nonprofit Periodicals.

26 Appendix A documents how I recomputed the CRA adjustment unit costs using FY99-
27 based test year costs. The net effect was that the combined worksharing related unit
28 costs declined by 1.1% to 7.563 cents per piece for regular rate Periodicals. For
29 nonprofit Periodicals the worksharing related unit cost grew by 3.3% to 3.892 cents per
30 piece. Stated differently, worksharing related unit cost differentials are slightly smaller

1 for regular rate and slightly larger for nonprofit Periodicals, relative to what they
2 would be using the FY98-based adjustment.¹

3 2. Piece Sorting Productivity And Machine Accept Rates

4 The piece sorting productivity rates used in MPA-LR-2 for various manual, mechanized
5 and automated flats sorting modes (entered on spreadsheet pages "productivities" and
6 "accept rates," respectively) should be replaced with a set of FY99-based productivity
7 and accept rates. These are shown in Exhibit 2, which also shows the FY98-based rates
8 for comparison. Appendix B explains how the new rates were developed.

9 3. Wage Rates

10 The Postal Service does not appear to have provided updated test year clerk and
11 mailhandler wage rates for use in its worksharing mail flow models. However, given
12 Patelunas's testimony that the Postal Service's inflation forecast has increased since the
13 original filing, one must infer that the test year wage rates implicit in the supplemental
14 filing are higher than those forecast earlier.

15 Fortunately, it is not necessary to know which wage rates the Postal Service now
16 forecasts for the test year. As long as the extra wage increase is built into the updated
17 test year unit costs, it will, through the CRA adjustment, also be automatically included
18 in the worksharing cost differentials produced by the model.

19 4. Piggyback Factors

20 The flats mail flow model uses operation-specific piggyback factors that are entered on
21 spreadsheet page "data." The factors used in MPA-LR-2 should be updated. However,
22 as explained in Appendix A, the updated factors appear not to have been provided in
23 the Postal Service's supplemental filing. Approximately similar results can be achieved
24 by multiplying, for each subclass, the FY98-based factors by the ratio between the FY99-
25 based and FY98-based subclass-specific factors, which can be found, respectively, in

¹ The unit costs listed in Exhibit 1 include both worksharing related and non-worksharing related costs. The latter category includes, for example, platform costs.

1 LR-I-414 (PRC version: LR-I-427) and LR-I-77. However, since this operation also is
2 performed through the CRA adjustment, applying the same factors to determine
3 modeled costs would have no impact on the resulting worksharing related unit cost
4 differentials and is therefore unnecessary.

5 IV. SUMMARY

6 The incorporation of FY99 cost data into projections for the test year costs causes only
7 minor changes to the recommendations made in my direct testimony, which I continue
8 to urge upon the Commission's thoughtful consideration. In this supplemental
9 testimony, I have described, in as much detail as seems potentially helpful to the
10 Commission and as the circumstances make possible, the changes that can and should
11 be made to the MPA-LR-2 mail flow model, which computes worksharing unit cost
12 differentials for flat mail. Some of the model data, such as the various mail flow
13 percentages, could not be changed, because they are based on special studies which
14 have not been updated.

15 Similarly, the recommendations I made in my direct testimony with regard to mail
16 processing cost distribution remain equally valid relative to the FY99 IOCS data.
17 Updated calculations, based on the incorporation of FY99 IOCS data, are provided in
18 MPA-LR-12.

APPENDIX A

FY99-Based Unit Costs For Flats Model CRA Adjustment

1 This appendix documents the development of FY99-based unit costs needed to
2 implement the CRA adjustment for the flats mail flow model. The adjustment requires
3 cost pool and shape-specific test year mail processing unit costs for each modeled
4 subclass. The source of these unit costs in the Postal Service's original filing was USPS
5 LR-I-81, where the relevant FY98-based test year unit costs are found on spreadsheet
6 page "flats(4)" in spreadsheet "mpshusty."

7 The corresponding unit costs derived from FY99 cost data and the revised roll forward
8 assumptions described in USPS-ST-44 are provided in USPS LR-I-415 on spreadsheet
9 page "flats(3)" in spreadsheet SPTY99np. However, unlike the unit costs in LR-I-81,
10 those given in LR-I-415 reflect segment 3 mail processing costs only and do not include
11 piggyback costs. The LR-I-415 costs therefore cannot be used for an FY99 version of the
12 CRA adjustment without first multiplying them with the appropriate pool-specific
13 piggyback factors.

14 In the Postal Service's original filing, LR-I-77 provided all relevant piggyback
15 information, including the pool-specific test year factors, which are given on pages IV-
16 26 through IV-28 of that document. The Postal Service does not appear to have
17 provided the corresponding FY99-based information in its supplemental filing.
18 Subclass-specific piggyback factors are given in library references LR-I-414 and LR-I-
19 427 (PRC version), but cost pool-specific factors are missing. Unable to obtain the
20 updated pool-specific piggyback factors, I have applied the following two-step method
21 of approximation for regular and nonprofit Periodicals. This approach could also be
22 carried out for First Class and Standard A flats.

23 First, I multiplied the cost pool and shape-specific unit costs in LR-I-415 with the FY98-
24 based pool-specific test year piggyback costs from LR-I-77. Then, for each subclass, I
25 multiplied the resulting unit costs by the ratio between the FY99-based subclass specific

1 mail processing piggyback factor in LR-I-414 and the corresponding FY98-based factor
2 in LR-I-77.² I entered the resulting unit costs for regular rate Periodicals in column R of
3 the "CRA Cost Pools" spreadsheet page and the corresponding nonprofit unit costs in
4 column W.

² Mail processing related piggyback factors appear to have increased for all subclasses as a result of the FY99 data. The increase is 1.7% for regular rate and 1.8% for nonprofit Periodicals.

APPENDIX B

Development Of FY99-Based Flats Piece Sorting And Accept Rates

1 This appendix documents the development of the FY99-based piece sorting
2 productivity and accept rates shown in Exhibit 2.

3 The rates assumed in MPA-LR-2 for AFSM 100 flat sorting are unchanged. There is no
4 basis for any change in the earlier assumptions, since there exist no empirical AFSM
5 data from either FY98 or FY99. Similarly, the rate assumed for manual incoming
6 secondary flat sorting in non-FSM facilities is unchanged. That rate is based on a
7 special study (LR-I-88) that has not been updated.

8 All other FY99-based rates in Exhibit 2 are derived from MODS data provided by the
9 Postal Service in response to PostCom/USPS-T43-6, redirected from witness Unger
10 (filed May 5, 2000; designated for inclusion in the evidentiary record, August 1, 2000).
11 The data consist of MODS TPF (pieces fed), TPH (pieces handled) and manhours data
12 for each type of flat sorting operation. They exclude the highest and lowest 1%
13 productivity rates for each sorting operation. Except for operations involving use of
14 FSM 881 machines in OCR or BCR mode, the MODS data provided in response to
15 PostCom/USPS-T43-6 were used directly to compute the productivity and accept rates
16 in Exhibit 2. Accept rates were computed as the ratio of TPH/TPF (pieces sorted
17 divided by pieces fed) and productivity rates as TPF divided by manhours.³

18 In the case of the FSM 881 BCR/OCR and FSM 881 OCR operations, a direct application
19 of the MODS data would have been inappropriate, because the distinction between
20 these two terms in MODS is different from the distinction used in the flats mail flow
21 model. This difficulty was discussed in considerable detail by witness Glick in
22 PostCom, et al.-T-1. I have applied the same methodology that Glick used for the FY98

³ For manual flats sorting productivity rates in FSM facilities, I applied an assumed 5% manual productivity increase, corresponding to the 5% increase factor applied to the FY98-based manual productivity rates in MPA-LR-2. The Postal Service expects to realize this improvement in manual productivity through a "local management initiative." USPS LR-I-126, "Increase manual flat productivity."

1 FSM 881 data. The method, and the reason for its appropriateness, is explained briefly
2 below.

3 An FSM 881 essentially operates in two main modes: keying and automated. In the
4 latter mode, the machine's OCR/BCR unit is normally programmed to first look for a
5 barcode on each flat. If a barcode is found, it is used to sort the piece. Otherwise, the
6 OCR attempts to read the address. This allows barcoded and non-barcoded flats to be
7 processed together, even though the accept rate obviously is higher for the barcoded
8 pieces, and helps eliminate the extra allied labor involved in keeping separate
9 mailstreams for barcoded and non-barcoded flats.

10 Two sets of MODS numbers are used to record volumes and manhours for the
11 automated FSM 881 mode. The FSM-OCR mode (MODS numbers 44X) is used the
12 most and includes both barcoded and non-barcoded flats. The FSMBCR mode (MODS
13 numbers 96X) is used much less and generally only for 100% barcoded mail volumes.⁴

14 In the flats mail flow model, the FSM 881 BCR/OCR sorting operations represent
15 automated sorting of pre-barcoded mail, while the FSM 881 OCR operations represent
16 automated sorting of non-barcoded flats. The difference in accept rates between
17 barcoded and non-barcoded flats is important in order to properly determine the costs
18 that are saved when mailers pre-barcode their flats. However, this difference cannot be
19 extracted directly from the MODS data.

20 Both MPA-LR-2 and the update presented here assume the accept rate for non-
21 barcoded flats sorted in automated mode on the FSM 881 to be 75%. Witness Glick
22 showed the reasonableness of this assumption, based on calculations confirmed by
23 witness O'Tormey. Tr. 21/8353-54. The assumption is also consistent with the Strategic
24 Improvement Guide For Flats (USPS LR-I-193). The acceptance rates for barcoded flats
25 are assumed equal to the TPH/TPF ratios at the FSMBCR MODS operations.

⁴ It is possible, though less common today, to set the machines to look only for barcodes, i.e., not to use the OCR. The 96X MODS numbers are used in that case. An advantage of this mode is that 3 additional bins on each side of the machine become available for sorted mail. See LR-I-193, Chapter 5.

**UPDATE PER ORDER NO. 1294 OF MPA-LR-2
PRESORT/AUTOMATION COST DIFFERENTIALS FOR PERIODICALS
MAIL**

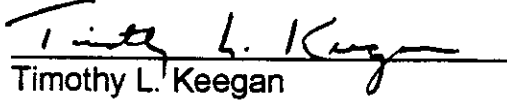
Updated Presort/Automation Related Costs Regular Rate Periodicals			
Method	Rate Category	Cents Per Piece	
		MPA-LR-2	Updated Estimate
Cost Averages-Actual	Basic, Nonautomation	25.901	25.662
	Basic, Automation	22.765	22.587
	3-Digit, Nonautomation	20.786	20.451
	3-Digit, Automation	18.659	18.860
	5-Digit, Nonautomation	14.309	14.047
	5-Digit, Automation	14.192	13.961
	Carrier Route	7.430	7.249
Cost Averages-Normalized Auto-Related Savings	Basic, Nonautomation	27.145	26.933
	Basic, Automation	23.389	23.197
	3-Digit, Nonautomation	21.588	21.503
	3-Digit, Automation	18.465	18.670
	5-Digit, Nonautomation	14.549	14.272
	5-Digit, Automation	14.038	13.810

Updated Presort/Automation Related Costs Nonprofit Periodicals			
Method	Rate Category	Cents Per Piece	
		MPA-LR-2	Updated Estimate
Cost Averages-Actual	Basic, Nonautomation	17.138	17.987
	Basic, Automation	13.080	13.848
	3-Digit, Nonautomation	13.967	14.429
	3-Digit, Automation	11.524	12.427
	5-Digit, Nonautomation	8.913	9.328
	5-Digit, Automation	8.772	9.212
	Carrier Route	4.220	4.462
Cost Averages-Normalized Auto-Related Savings	Basic, Nonautomation	17.118	18.030
	Basic, Automation	14.620	15.418
	3-Digit, Nonautomation	14.142	14.812
	3-Digit, Automation	11.852	12.721
	5-Digit, Nonautomation	9.014	9.431
	5-Digit, Automation	8.652	9.086

FY98 And FY99 MODS-Based Flats Piece Sorting Productivity And FSM Accept Rates				
Sorting Operation:	Productivity Rate (Pcs/Hr)		Accept Rates (%)	
	FY98	FY99	FY98	FY99
<u>Outgoing Primary (includes OS)</u>				
FSM 881 BCR/OCR	724	980	93.90%	91.52%
FSM 881 OCR	724	980	75.00%	75.00%
FSM 881 Keying	664	468	99.70%	99.34%
AFSM 100 BCR/OCR/VCS	3,000	3,000	96.00%	96.00%
AFSM 100 OCR/VCS	1,667	1,667	97.00%	97.00%
FSM 1000 BCR	724	794	94.00%	93.85%
FSM 1000 Keying	664	578	97.90%	98.28%
Manual	452	407	100.00%	100.00%
<u>Area Distribution Center, ADC</u>				
FSM 881 BCR/OCR	837	797	92.20%	90.17%
FSM 881 OCR	837	797	75.00%	75.00%
FSM 881 Keying	531	410	99.40%	99.30%
AFSM 100 BCR/OCR/VCS	3,000	3,000	96.00%	96.00%
AFSM 100 OCR/VCS	1,667	1,667	97.00%	97.00%
FSM 1000 BCR	837	1,347	94.00%	83.47%
FSM 1000 Keying	531	540	97.90%	98.08%
Manual	400	360	100.00%	100.00%
<u>Inc. Primary (includes SCF)</u>				
FSM 881 BCR/OCR	990	816	92.80%	92.42%
FSM 881 OCR	990	816	75.00%	75.00%
FSM 881 Keying	556	468	99.60%	99.34%
AFSM 100 BCR/OCR/VCS	3,000	3,000	96.00%	96.00%
AFSM 100 OCR/VCS	1,667	1,667	97.00%	97.00%
FSM 1000 BCR	990	1,097	94.00%	85.71%
FSM 1000 Keying	556	600	97.90%	98.14%
Manual	545	484	100.00%	100.00%
<u>Inc. Secondary & Box Section</u>				
FSM 881 BCR/OCR	798	760	93.40%	93.11%
FSM 881 OCR	798	760	75.00%	75.00%
FSM 881 Keying	488	401	99.40%	99.00%
AFSM 100 BCR/OCR/VCS	3,000	3,000	96.00%	96.00%
AFSM 100 OCR/VCS	1,667	1,667	97.00%	97.00%
FSM 1000 BCR	798	1,293	94.00%	83.62%
FSM 1000 Keying	488	721	98.40%	98.00%
Manual, FSM Zones	457	409	100.00%	100.00%
Manual, Non-FSM Zones	846	846	100.00%	100.00%

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.


Timothy L. Keegan

August 14, 2000